

## Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended and P.A. 71 of 1919, as amended.

Local Unit of Government Type <input type="checkbox"/> County <input type="checkbox"/> City <input type="checkbox"/> Twp <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Unit Name MIDLAND CO. WATER DISTRICT #1	County MIDLAND
Fiscal Year End 12-31-06	Opinion Date 5/10/07	Date Audit Report Submitted to State 6/21/07	

We affirm that:

We are certified public accountants licensed to practice in Michigan.

We further affirm the following material, "no" responses have been disclosed in the financial statements, including the notes, or in the Management Letter (report of comments and recommendations).

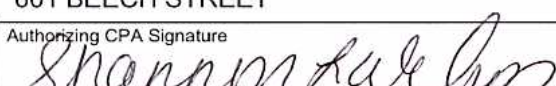
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**Check each applicable box below.** (See instructions for further detail.)

1. ☒ ☐ All required component units/funds/agencies of the local unit are included in the financial statements and/or disclosed in the reporting entity notes to the financial statements as necessary.
2. ☒ ☐ There are no accumulated deficits in one or more of this unit's unreserved fund balances/unrestricted net assets (P.A. 275 of 1980) or the local unit has not exceeded its budget for expenditures.
3. ☒ ☐ The local unit is in compliance with the Uniform Chart of Accounts issued by the Department of Treasury.
4. ☒ ☐ The local unit has adopted a budget for all required funds.
5. ☒ ☐ A public hearing on the budget was held in accordance with State statute.
6. ☒ ☐ The local unit has not violated the Municipal Finance Act, an order issued under the Emergency Municipal Loan Act, or other guidance as issued by the Local Audit and Finance Division.
7. ☒ ☐ The local unit has not been delinquent in distributing tax revenues that were collected for another taxing unit.
8. ☒ ☐ The local unit only holds deposits/investments that comply with statutory requirements.
9. ☒ ☐ The local unit has no illegal or unauthorized expenditures that came to our attention as defined in the *Bulletin for Audits of Local Units of Government in Michigan*, as revised (see Appendix H of Bulletin).
10. ☒ ☐ There are no indications of defalcation, fraud or embezzlement, which came to our attention during the course of our audit that have not been previously communicated to the Local Audit and Finance Division (LAFD). If there is such activity that has not been communicated, please submit a separate report under separate cover.
11. ☒ ☐ The local unit is free of repeated comments from previous years.
12. ☒ ☐ The audit opinion is UNQUALIFIED.
13. ☒ ☐ The local unit has complied with GASB 34 or GASB 34 as modified by MCGAA Statement #7 and other generally accepted accounting principles (GAAP).
14. ☒ ☐ The board or council approves all invoices prior to payment as required by charter or statute.
15. ☒ ☐ To our knowledge, bank reconciliations that were reviewed were performed timely.

If a local unit of government (authorities and commissions included) is operating within the boundaries of the audited entity and is not included in this or any other audit report, nor do they obtain a stand-alone audit, please enclose the name(s), address(es), and a description(s) of the authority and/or commission.

I, the undersigned, certify that this statement is complete and accurate in all respects.

<b>We have enclosed the following:</b>	Enclosed	Not Required (enter a brief justification)	
Financial Statements	<input checked="" type="checkbox"/>		
The letter of Comments and Recommendations	<input checked="" type="checkbox"/>		
Other (Describe)	<input type="checkbox"/>		
Certified Public Accountant (Firm Name) WEINLANDER FITZHUGH		Telephone Number 989-386-3481	
Street Address 601 BEECH STREET		City CLARE	State MI
Zip 48617			
Authorizing CPA Signature 	Printed Name SHANNON WILSON	License Number 1101027042	



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

ROBERT E. LIST, CPA  
STEWART J. REID, CPA  
MICHAEL L. HANISKO, CPA  
DAVID D. QUIMBY, CPA  
KATHLYN M. ENGELHARDT, CPA  
RENAE M. CLEVINGER, CPA  
AMY L. RODRIGUEZ, CPA  
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA  
ROY A. SCHAIRER, CPA  
JAMES L. WHALEY, CPA  
JEROME L. YANTZ, CPA  
PHILIP T. SOUTHGATE, CPA  
ROBERT J. DUYCK, CPA

## WATER DISTRICT NO. 1 OF MIDLAND COUNTY SANFORD, MICHIGAN

### FINANCIAL STATEMENTS DECEMBER 31, 2006

601 BEECH STREET  
POST OFFICE BOX 297  
CLARE, MI 48617  
989-386-3481  
FAX 989-386-3462  
[www.wf-cpas.com](http://www.wf-cpas.com)  
[wf@wf-cpas.com](mailto:wf@wf-cpas.com)

OFFICES: BAY CITY, CLARE,  
GLADWIN AND WEST BRANCH

**RSM** McGladrey Network

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May 10, 2007

## Independent Auditors' Report

Board of Commissioners  
Water District No. 1 of Midland County  
Sanford, Michigan

We have audited the accompanying financial statements of the business-type activities and its major fund of the Water District No. 1 of Midland County as of and for the year ended December 31, 2006, which collectively comprise the Water District No. 1 of Midland County's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the District's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the business-type activities and its major fund of the Water District No. 1 of Midland County as of December 31, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with U.S. generally accepted accounting principles.

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# WEINLANDER FITZHUGH

Board of Commissioners  
Water District No. 1 of Midland County  
May 10, 2007  
Page 2

## **Required Supplemental Information**

The management's discussion and analysis as identified in the table of contents are not a required part of the basic financial statements but is supplemental information required by U.S. generally accepted accounting principles and the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

*Weinlander Fitzhugh*

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**Management's Discussion & Analysis**  
**For the Year Ended December 31, 2006**

The Water District No. 1 of Midland County (District) is presenting the following discussion and analysis in order to provide an overall review of the District's financial activities for the fiscal year ending December 31, 2006. We encourage readers to consider the information presented here in conjunction with the District's financial statements, and notes to the basic financial statements to enhance their understanding of the District's financial performance.

**FINANCIAL HIGHLIGHTS**

- The District's net assets increased by \$130,000.
- During the year "operating revenues" increased by \$28,000 and "operating expenses" increased by \$35,000.
- Service connections revenue increased by \$28,000.

**OVERVIEW OF THE FINANCIAL STATEMENTS**

The annual report includes this management's discussion and analysis report, the independent auditors' report and the basic financial statements of the District. The financial statements also include notes that explain in more detail some of the information in the financial statements.

**Government-wide financial statements.** The government-wide financial statements are designed to provide readers with a broad overview of the District's finances in a manner similar to a private sector business.

The Statement of Net Assets presents information on all of the District's assets and liabilities, with the difference between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the District is improving or deteriorating. However, one will need to consider other non-financial factors such as changes in economic conditions, population growth, and new or changed government legislation.

The Statement of Activities presents information showing how the district's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**Management's Discussion & Analysis**  
**For the Year Ended December 31, 2006**

**Fund financial statements.** A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The District's only fund is a proprietary fund.

**Proprietary funds.** Enterprise funds are used to report the same functions presented as business-type activities in the government-wide financial statements. The District uses an enterprise fund to account for its water system.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide information on the only major fund of the District.

**Notes to the financial statements.** The notes provide additional information that is essential to a full understanding of the data provided in the government-wide fund financial statements.

**FINANCIAL ANALYSIS OF THE DISTRICT**

The most common financial question posed to the District is "How did we do financially during the fiscal year?" The statement of net assets and the statement of activities report information about the District's activities in a way that will help answer this question. The two statements report the net assets of the District and the change in them.

**Net Assets**

The statement of net assets provides the perspective of the District as a whole. Exhibit A provides a summary of the District's net assets as of December 31, 2006 and 2005.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
Management's Discussion & Analysis  
For the Year Ended December 31, 2006

**Exhibit A**

	Business-Type Activities	
	2006	2005
<b>Assets</b>		
Current assets	\$ 327,000	\$ 369,000
Capital assets - net of accumulated depreciation	803,000	735,000
Total assets	<u>1,130,000</u>	<u>1,104,000</u>
<b>Liabilities</b>		
Current liabilities	47,000	141,000
Long-term liabilities	86,000	96,000
Total liabilities	<u>133,000</u>	<u>237,000</u>
<b>Net Assets</b>		
Investment in capital assets	706,000	629,000
Unrestricted	291,000	238,000
Total net assets	<u>\$ 997,000</u>	<u>\$ 867,000</u>

Exhibit A focuses on the net assets of the District. The District's net assets were \$997,000 at December 31, 2006. Capital assets, net of related debt, totaling \$706,000 compares the original cost, less depreciation of the District's capital assets to long-term debt used to finance the acquisition of those assets, if any.

The \$291,000 in unrestricted net assets of business-type activities represents the *accumulated* results of all past and current year's operations.

The results of this year's operations for the District as a whole are reported in the statement of activities Exhibit B provides a summary of the District's operations for 2006 and 2005, which shows the changes in net assets for the year ended December 31, 2006 and 2005.



WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
Management's Discussion & Analysis  
For the Year Ended December 31, 2006

**Exhibit B**

	Business-type Activities	
	<u>2006</u>	<u>2005</u>
<b>Revenue</b>		
Program revenue:		
Charges for service	\$ 706,000	\$ 700,000
Capital grants and contributions	89,000	0
General revenue:		
Investment earnings	<u>10,000</u>	<u>5,000</u>
Total revenue	805,000	705,000
 <b>Function/Program Expenses</b>		
Water	<u>675,000</u>	<u>661,000</u>
 <b>Increase in Net Assets</b>	<u><u>\$ 130,000</u></u>	<u><u>\$ 44,000</u></u>

While the statement of activities shows the change in financial position of assets, the statement of revenues, expenses and changes in net assets provides answers as to the nature and source of these changes. As can be seen in Exhibit B above, the contribution of water lines of \$89,000 was a major factor in the increase in changes of net assets.

**FINANCIAL ANALYSIS OF THE DISTRICT'S FUND**

**Proprietary fund.** The District's proprietary fund provides the same type of information found in the government-wide financial statements, but in more detail.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**Management's Discussion & Analysis**  
**For the Year Ended December 31, 2006**

	Business-type Activities	
	2006	2005
Gross service charges	\$ 654,000	\$ 675,000
Cost of water	250,000	269,000
Gross profit	404,000	406,000
Operating revenue	52,000	24,000
Operating expenses	(420,000)	(385,000)
Total nonoperating revenue (expenses)	94,000	(1,000)
Change in net assets	\$ 130,000	\$ 44,000
Total net assets - end of year	\$ 997,000	\$ 867,000

**Budgetary Highlights**

The preparation of budgets is not required for proprietary funds.

**Capital Assets**

The District had \$803,000 (net of accumulated depreciation) invested in capital assets as of December 31, 2006. The investment in capital assets includes land, building, equipment and water distribution system.

	2006	2005
Land	\$ 52,000	\$ 52,000
Buildings and improvements	157,000	149,000
Equipment and vehicles	81,000	81,000
Distribution system	694,000	604,000
Total capital assets	984,000	886,000
Less accumulated depreciation	181,000	151,000
Net capital assets	\$ 803,000	\$ 735,000

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**Management's Discussion & Analysis**  
**For the Year Ended December 31, 2006**

**Capital Assets (Continued)**

This year's additions of \$97,000 included an automated gate, copier and the Sawmill Trail water lines, which were donated to the District. No debt was issued for these additions.

We do not anticipate any major capital additions in the next fiscal year. We present more detailed information about our capital assets in the notes to the financial statements.

Depreciation expense has been allocated to water operations.

**Long-Term Debt**

At the end of this year, the District had \$96,000 in long-term debt outstanding versus \$106,000 in the previous year – a change of 9%. The long-term debt consists of the following:

	<u>2006</u>	<u>2005</u>
Capital lease agreements	<u>\$ 96,000</u>	<u>\$ 106,000</u>

The District's outstanding general obligation debt of \$96,000 is significantly below the statutorily imposed limit.

**Factors Expected to have an Effect on Future Operations**

We are not aware of any factors that will have a significant impact on future operations.

**Requests For Information**

This financial report is designed to provide a general overview of the District's finances for all those with an interest in the District. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to:

Ms. Alice Sharron Such, Secretary/Treasurer  
Water District No. 1 of Midland County  
PO Box 320  
Sanford, MI 48657

WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
Statement of Net Assets  
December 31, 2006

	<u>Business-type Activities</u>
<u>Assets</u>	
Cash	\$ 247,696
Accounts receivable	20,715
Inventory	59,302
Capital assets less accumulated depreciation of \$180,741	<u>802,731</u>
Total assets	<u>1,130,444</u>
<u>Liabilities</u>	
Accounts payable	18,225
Escrow	3,150
Accrued wages	10,375
Accrued payroll taxes	5,078
Lease obligation:	
Due within one year	9,976
Due in more than one year	<u>86,387</u>
Total liabilities	<u>133,191</u>
<u>Net Assets</u>	
Investment in capital assets - net of related debt	706,368
Unrestricted	<u>290,885</u>
Total net assets	<u><u>\$ 997,253</u></u>

See accompanying notes to financial statements

WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
Statement of Activities  
For the Year Ended December 31, 2006

Function/Programs	Expenses	Program Revenues			Business-Type Activities
		Charges for Service	Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenue and Changes in Net Assets
Business-type Activities					
Water	\$ 675,309	\$ 706,606	\$ 0	\$ 89,034	\$ 120,331
	General revenues:				
	Interest earnings				10,093
			Change in net assets		130,424
			Net assets - beginning of year		866,829
			Net assets - end of year		\$ 997,253

See accompanying notes to financial statements

WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
Statement of Net Assets  
Proprietary Fund  
December 31, 2006

	<u>Business-type Activities Enterprise Fund</u>
<u>ASSETS</u>	
<u>Current Assets</u>	
Cash	\$ 247,696
Accounts receivable	20,715
Inventory	59,302
	<hr/>
Total current assets	327,713
	<hr/>
<u>Property and Equipment - At Cost</u>	
Land	52,393
Building and improvements	156,538
Equipment and vehicles	80,520
Water system	694,021
	<hr/>
	983,472
Less allowance for depreciation	(180,741)
	<hr/>
Net property and equipment	802,731
	<hr/>
Total Assets	1,130,444
	<hr/>
<u>LIABILITIES</u>	
<u>Current Liabilities</u>	
Accounts payable	18,225
Escrow	3,150
Accrued wages	10,375
Accrued payroll taxes	5,078
Lease obligation, current	9,976
	<hr/>
	46,804
<u>Long-term Liabilities</u>	
Lease obligation	86,387
	<hr/>
Total liabilities	133,191
	<hr/>
<u>NET ASSETS</u>	
Investment in capital assets - net of related debt	802,731
Unrestricted	194,522
	<hr/>
Total net assets	\$ 997,253
	<hr/> <hr/>

See accompanying notes to financial statements

WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
Statement of Revenues, Expenses and Changes in Fund Net Assets  
Proprietary Fund  
For the Year Ended December 31, 2006

	Business-type Activities <u>Enterprise Fund</u>
Gross service charges	\$ 654,602
Water cost	<u>250,150</u>
Gross profit	<u>404,452</u>
Operating revenues:	
Service connections	<u>52,004</u>
Total operating revenues	<u>52,004</u>
<u>Operating Expenses</u>	
Supplies and materials	88,200
Depreciation	29,729
Repairs and maintenance	44,260
Wages	165,059
Legal and accounting	10,000
Meetings	581
Insurance	35,228
Payroll taxes	12,150
Pension expense	2,804
Dues and licenses	7,356
Office expense	17,071
Utilities	3,621
Telephone and pager	<u>3,741</u>
Total operating expenses	<u>419,800</u>
Operating income	<u>36,656</u>
Nonoperating revenues (expenses):	
Interest income	10,093
Water line contributions	89,034
Interest expense	<u>(5,359)</u>
Total nonoperating revenues (expenses)	<u>93,768</u>
Change in net assets	130,424
Net assets - beginning of year	<u>866,829</u>
Net assets - end of year	<u><u>\$ 997,253</u></u>

See accompanying notes to financial statements

WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
Statement of Cash Flows  
Proprietary Fund  
For the Year Ended December 31, 2006

	Business-type Activities <u>Enterprise Fund</u>
Cash flows from operating activities:	
Cash received from customers	\$ 713,049
Cash payments to suppliers for goods and services	(579,159)
Cash payments to employees for services	<u>(171,677)</u>
Net cash (used) by operating activities	<u>(37,787)</u>
Cash flows from capital and related financing activities:	
Acquisition and construction of capital assets	(8,419)
Principal paid on capital debt	(9,483)
Interest paid on capital debt	<u>(5,359)</u>
Net cash (used) by capital and related financing activities	<u>(23,261)</u>
Cash flows from investing activities	
Interest	<u>10,093</u>
Net decrease in cash and cash equivalents	(50,955)
Cash and cash equivalents, at beginning of year	<u>298,651</u>
Cash and cash equivalents, at end of year	<u><u>\$ 247,696</u></u>

See accompanying notes to financial statements



**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

**Description of District's Operations**

Water District No. 1 of Midland County (District) is a water District that falls under the provisions of Act #233 of the Public Acts of 1955, as amended. The District was established to service and collect water charges as an agent for six communities – Lincoln Township, Jerome Township, Edenville Township, Hope Township, Lee Township and the Village of Sanford (Communities). The District services approximately 2,700 customers. A twelve-member board consisting of two members appointed by each community manages the District.

**Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. Government activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities which rely to a significant extent on fees and charges for support. All of the District's government-wide activities are considered business-type activities.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include, (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment, and (2) grants and contributions that are restricted to meeting operations or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Separate fund financial statements are provided for the major enterprise fund.

**Measurement Focus, Basis of Accounting and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The District reports the following major proprietary fund.

- The Water Fund accounts for activities of the water distribution system.

Private-sector standards of accounting issued prior to December 1, 1989, are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The government has elected to also follow private-sector standards issued after November 30, 1989, for its business-type activities.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenues and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of the proprietary funds relate to charges to customers for water services. The water fund also recognizes the portion of tap fees intended to cover current costs (e.g., labor and material to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

**Assets, Liabilities, and Net Assets or Equity**

Bank Deposits and Investments – Cash and cash equivalents are considered to be cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2006**

**NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)**

Receivables – Accounts receivable consist of utility charges to the District's customers. No allowance for doubtful accounts has been included in these statements because most delinquent receivables can be added to the tax roll if they remain unpaid and become a lien against the property.

Inventory - Inventory is valued at the lower of cost (first-in, first-out) or market and is comprised of various water connection materials.

Capital Assets – Capital assets, which include property, plant, and equipment are reported in the applicable business-type activities column in the government-wide financial statements. Capital assets are defined by the government as assets with an initial individual cost of more than \$1,000 and any asset susceptible to theft. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Interest incurred during the construction of capital assets of business-type activities is included as part of the capitalized value of the assets constructed. During the current year, \$0 of interest expense was capitalized as part of the cost of assets under construction.

Property, plant and equipment are depreciated using the straight-line method over the following useful lives:

Building	20 years
Equipment	5-15 years
Distribution system	30-50 years

Long-Term Obligations – Long-term debt and other long-term obligations are reported as liabilities in the statement of net assets and the balance sheet.

Use of Estimates – The process of preparing the basic financial statements in conformity with U.S. generally accepted accounting principles requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues, and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2006**

**NOTE 2 - DEPOSITS AND INVESTEMENTS**

State statutes and the District's investment policy authorize the District to make deposits in the accounts of federally insured banks, credit unions, and savings and loan associations that have an office in Michigan; the District is allowed to invest in U.S. Treasury or Agency obligations, U.S. government repurchase agreements, bankers' acceptances, commercial paper rated prime at the time of purchase that matures not more than 270 days after the date of purchase, mutual funds, and investment pools that are composed of authorized investment vehicles. The District's deposits are in accordance with statutory authority.

At year-end, the District's deposits were reported in the basic financial statements as follows.

	<u>Business-type Activities</u>
Deposits (checking and savings accounts, certificates of deposit)	\$ 247,696

The breakdown between deposits and investments for the District is as follows:

Deposits (checking and savings accounts)	\$ 247,496
Petty cash and cash on hand	<u>200</u>
Total	<u>\$ 247,696</u>

**Custodial Credit Risk – Deposits**

In the case of deposits, this is the risk that in the event of a bank failure, the District's deposits may not be returned to it. As of December 31, 2006, \$176,752 of the District's bank balance of \$276,752 was exposed to custodial credit risk because it was uninsured and collateralized.

The District's investment policy does not identify interest rate risk, foreign currency risk or concentration of credit risk.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2006**

**NOTE 3 – CAPITAL ASSETS**

Capital asset activity of the District for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 52,393	\$ 0	\$ 0	\$ 52,393
Capital assets being depreciated:				
Building and improvements	149,100	7,438	0	156,538
Equipment and vehicles	79,540	980	0	80,520
Distribution system	604,987	89,034	0	694,021
Subtotal	<u>833,627</u>	<u>97,452</u>	<u>0</u>	<u>931,079</u>
Less accumulated depreciation for:				
Building and improvements	26,093	4,099	0	30,192
Equipment and vehicles	44,690	11,383	0	56,073
Distribution system	80,230	14,246	0	94,476
Subtotal	<u>151,013</u>	<u>29,728</u>	<u>0</u>	<u>180,741</u>
Net capital assets being depreciated	<u>682,614</u>	<u>67,724</u>	<u>0</u>	<u>750,338</u>
Net capital assets	<u><u>\$ 735,007</u></u>	<u><u>\$ 67,724</u></u>	<u><u>\$ 0</u></u>	<u><u>\$ 802,731</u></u>

Depreciation expense has been allocated to water operations.

**NOTE 4 – RISK MANAGEMENT**

The District is exposed to various risks of loss related to property loss, torts, errors and omissions and workplace injuries (workers compensation). The Authority purchases commercial insurance to cover the risks of these losses. Settled claims relating to commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

**WATER DISTRICT NO. 1 OF MIDLAND COUNTY**  
**Notes to Financial Statements**  
**For the Year Ended December 31, 2006**

**NOTE 5 – LEASE OBLIGATION**

The District has entered into a lease purchase contract for \$150,000 with the Village of Sanford for the purchase of its building. The lease is being paid in quarterly installments of \$3,710, including interest at 5.25%, and matures in 2014.

The future minimum lease payments under the capital lease and present value of the net minimum lease payments are as follows:

2007	\$ 14,842
2008	14,842
2009	14,842
2010	14,842
2011	14,842
Thereafter	<u>38,306</u>
Total future minimum lease payments	112,516
Less amount representing interest	<u>16,153</u>
Present value of future minimum lease payments	<u><u>\$ 96,363</u></u>

**NOTE 6 – PENSION PLAN**

The District sponsors a defined contribution 457 (b) pension plan that covers all eligible employees. Employer contributions to the plan 457 (b) plan up to a maximum percentage of 2% for each participating employee's compensation. Total pension expense was \$2,804 for 2006.

WATER DISTRICT NO. 1 OF MIDLAND COUNTY  
Notes to Financial Statements  
For the Year Ended December 31, 2006

**NOTE 7 - RECONCILIATION OF OPERATING INCOME TO NET CASH USED BY  
OPERATING ACTIVITIES**

Operating income	\$ 36,656
Adjustments to reconcile operating income to net cash (used) by operating activities:	
Depreciation	29,729
Change in assets and liabilities	
Accounts receivable	6,443
Inventory	(16,366)
Accounts payable	<u>(94,249)</u>
Net cash (used) by operating activities	<u><u>\$ (37,787)</u></u>



# WEINLANDER FITZHUGH

CERTIFIED PUBLIC ACCOUNTANTS  
& CONSULTANTS

ROBERT E. LIST, CPA  
STEWART J. REID, CPA  
MICHAEL L. HANISKO, CPA  
DAVID D. QUIMBY, CPA  
KATHLYN M. ENGELHARDT, CPA  
RENAE M. CLEVINGER, CPA  
AMY L. RODRIGUEZ, CPA  
SCOTT A. NIETZKE, CPA

WALTER G. WEINLANDER, CPA  
ROY A. SCHAIRER, CPA  
JAMES L. WHALEY, CPA  
JEROME L. YANTZ, CPA  
PHILIP T. SOUTHGATE, CPA  
ROBERT J. DUYCK, CPA

May 10, 2007

Board of Directors  
Water District #1 of Midland County  
246 E. Price Road  
Midland, Michigan 48642

Dear Board of Directors:

In planning and performing our audit of the financial statements of Water District #1 of Midland County as of and for the year ended December 31, 2006, in accordance with auditing standards generally accepted in the United States of America, we considered Water District #1 of Midland County's internal control over financial reporting (internal control) as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, we do not express an opinion on the effectiveness of the District's internal control.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control that might be significant deficiencies or material weaknesses. However as discussed below, we identified certain deficiency in internal control that we consider to be significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statements that is more than inconsequential will not be prevented or detected by the entity's internal control. We consider the following deficiencies to be significant deficiencies in internal control:

601 BEECH STREET  
POST OFFICE BOX 297  
CLARE, MI 48617  
989-386-3481  
FAX 989-386-3462  
www.wf-cpas.com  
wf@wf-cpas.com

OFFICES: BAY CITY, CLARE,  
GLADWIN AND WEST BRANCH

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# WEINLANDER FITZHUGH

Water District #1 of Midland County  
May 10, 2007  
Page 2

One of the strongest controls in an internal control system is known as “segregation of duties”. This means that there are different individuals performing different duties within a specific accounting function. Having multiple individuals performing duties in the same accounting function acts as a check and balance .

As is common in many small organizations, there is often only a few people, sometimes only one person, performing the accounting and financial functions and it is also common to have these individuals concentrate their efforts in one area. For example, one person does all the payroll, one person does all the disbursing, and one person does all the billing and receipting.

While this is usually more efficient, it is a weak internal control system. There are generally insufficient checks and balances in place.

This is the situation with the District. Due to a limited staff size, the District has a lack of segregation of duties with respect to the following accounting functions because the duties are centralized with two individuals:

- Utility billing and collection

The above comments are not intended to reflect on the performance or capability of any employee.

This communication is intended solely for the information and use of management, others within the organization, and is not intended to be and should not be used by anyone other than these specified parties.



# WEINLANDER FITZHUGH

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PHILIP T. SOUTHGATE, CPA  
ROBERT J. DUYCK, CPA

May 10, 2007

Members of the Board  
Water District #1 of Midland County  
Midland, Michigan

This letter is intended to inform the District Board about significant matters related to the conduct of the annual audit so it can appropriately discharge its oversight responsibility and that we comply with our professional responsibilities to the District Board.

The following summarizes various matters which must be communicated to you under U.S. generally accepted auditing standards.

## **The Auditor's Responsibility Under U.S. Generally Accepted Auditing Standards**

Our audit of the financial statements of the District for the year ended December 31, 2006 was conducted in accordance with U.S. generally accepted auditing standards. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement, whether caused by error, fraudulent financial reporting or misappropriation of assets. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. Accordingly, the audit was designed to obtain reasonable, rather than absolute, assurance about the financial statements. We believe our audit accomplished that objective.

## **Management Judgments and Accounting Estimates**

Accounting estimates are an integral part of the preparation of financial statements and are based upon management's current judgment. The process used by management encompasses their knowledge and experience about past and current events and certain assumptions about future events. Management has informed us they used all the relevant facts available to them at the time to make the best judgments about accounting estimates and we considered this information in the scope of our audit. These estimates are relatively insignificant in relation to the financial statements taken as a whole.

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www.wf-cpas.com  
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# WEINLANDER FITZHUGH

Members of the Board  
Water District #1 of Midland County  
May 10, 2007  
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## **Audit Adjustments**

For purposes of this letter, professional standards define a significant audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. Our audit adjustments were not significant.

## **Accounting Policies and Alternative Treatments**

Management has the ultimate responsibility for the appropriateness of the accounting policies used by the District. The District did not adopt any significant new accounting policies nor have there been any changes in existing significant accounting policies during the current period which should be brought to your attention for approval.

We did not identify any significant or unusual transactions or significant accounting policies in controversial or emerging areas for which there is a lack of authoritative guidance or consensus.

## **Disagreements with Management**

We encountered no disagreements with management over the application of significant principles, the basis for management's judgments on any significant matters, the scope of the audit or significant disclosures to be included in the financial statements.

## **Consultations with Other Accountants**

We are not aware of any consultations management had with other accountants about accounting or auditing matters.

## **Major Issues Discussed with Management Prior to Retention**

No major issues were discussed with management prior to our retention to perform the aforementioned audit.



# WEINLANDER FITZHUGH

Members of the Board  
Water District #1 of Midland County  
May 10, 2007  
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## **Difficulties Encountered in Performing the Audit**

We did not encounter any difficulties in dealing with management relating to the performance of the audit.

## **Closing**

We will be pleased to respond to any questions you have about the foregoing. We appreciate the opportunity to continue to be of service to the District.

This report is intended solely for the information and use of the Members of the Board and management and is not intended to be, and should not be, used by anyone other than the specified parties.

*Weinlander Fitzhugh*